The Internal Control System:

Reference framework

Presentation of the work performed by
the Working Group set up by the AMF

CONTENTS

INTRODUCTION

PREAMBLE

According to **articles 225.37 and 225.68 of the commercial code which are based on the Financial Security Act (LSF) dated August 1st 2003 (article 117)**, in companies whose financial instruments are listed on a regulated financial market in France, the Chairman of the Board of Directors or of the Supervisory Board *"gives an account,… on the internal control procedures that the company has implemented"*.

For these same companies, in accordance with **article L225-235 (article 120 of the LSF): "***the external auditors present in a report,… their observations on the report (of the Chairman) in respect of the internal control procedures regarding the elaboration and processing of accounting and financial information"*.

In its 2004 report on corporate governance and internal control, the **Financial Markets' Authority (AMF)** notes "*that unlike corporate governance, which now benchmarks standards against which issuers can compare themselves, the absence of a unanimously accepted reference framework for internal control makes the task of describing it much more difficult and can be an obstacle if one eventually wishes to assess the adequacy and effectiveness of the systems"*.

In this context, in April 2005, the AMF entrusted a working group[1] with the choice and/or adaptation of an internal control reference framework for use by French companies subject to the obligations of the August 1st 2003 Act, specifying that "*the reference framework should constitute a management tool intended for public companies.."*.

In its assignment letter[2], the AMF specifies that *"the reference framework designed or selected should be compared with the reference framework used in other major foreign financial markets , in particular the COSO reference framework, so as to avoid, as far as possible, the duplication of external reporting constraints in relation to internal control"*. And the regulator adds that *"the objective is also to pre-empt the European initiatives which figure in the re-drafting of the 4th and 7th directives"*

1.1 THE CONTEXT

There are numerous definitions of internal control, most of them having been drafted by professional accountants' organisations.
This is the case for the definition of internal control provided in 1977 by the French Institute of Chartered Accountants: *"internal control is the set of security measures which contribute to the control of a company. Its aim is to ensure, on the one hand, the security and safeguard of assets and the quality of information, on the other hand, the application of instructions given by Senior Management, and to encourage improvements in performance. It is evidenced through the organisation, methods and procedures for each of the company's activities, so as to ensure the continuity of that company"*.

In 1990, ruling 90/08 of the Banking and Financial Regulatory Committee obligated credit institutions to be equipped with an internal control system, defining the objectives:

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[1] *Composition of the Working Group set up by the AMF cf. appendix 2 followed in appendix 3 by the list of its members.*
[2] *Assignment letter, cf. appendix 2*

a) to verify that the operations performed by the institution together with organisation and internal procedures comply with the legal and regulatory provisions in force, with professional and ethical standards and practices, and with the directional guidelines of the executive body;

b) to verify that the limits fixed in terms of risks, notably with regards to credit, foreign exchange, interest rates as well as other market risks ,are respected;

c) to ensure the quality of accounting and financial information, particularly regarding the conditions under which this information is recorded, stored and available."

The 97/02 ruling followed on, specifying those items which had to be included in the internal control system of credit institutions:

- *a) a system for controlling internal operations and procedures;*
- *b) an organisation for accounting and for information processing;*
- *c) systems for assessing risks and measuring results;*
- *d) risk monitoring and control systems;*
- *e) a documentation and information system;*
- *f) a system for monitoring the flows of cash and securities".*

As most other business sectors are not subject to this sort of regulation, the majority of French companies have implemented their own internal control system without reliance on a specific reference framework.

This was also the case in the major Western countries up until the beginning of the Nineties, at which time the United States, then followed by Canada and the United Kingdom, published either an internal control reference framework, or a set of best practices on the subject.
The most widely used reference framework is, without question, the American document published in 1992 entitled "*Internal Control – Integrated Framework*[2]", more commonly referred to as COSO, an acronym of "*Committee of Sponsoring Organizations of the Treadway Commission"*, from the name of the committee which conceived the reference framework.

In the wake of a series of financial scandals which shook the American corporate sector at the end of the Nineties and at the beginning of the years 2000, the United States adopted the Sarbanes-Oxley Act (SOX) on July 30th 2002. Article 404 of this act obligated Executive Management to engage their responsibility in setting up an accounting and financial internal control structure and to assess its effectiveness, on an annual basis, from a recognised internal control model viewpoint. The external auditors have to validate this assessment.

To implement this section 404, the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) strongly recommended American and foreign companies quoted in New York to adopt COSO as their internal control reference framework. This has been the case for the thirty or so French groups affected by this act.

A year later, on August 1st 2003, the Financial Security Act (LSF) was promulgated which, according to the French authorities, was "*both a political and technical response to the crisis of confidence in market mechanisms and to the regulatory inadequacies which the economic and financial world had come to know over the previous two years"*.

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[2] *Work translated into French by the IFACI (French Institute of Audit and Internal Control) and PwC (PricewaterhouseCoopers) in 1994 under the title "La pratique du contrôle interne – COSO Report" - copyright in French IFACI.*

It is in chapter II "Regarding Corporate Transparency" under section III "Modernising the statutory audit of accounts and Transparency" that articles 117 and 120, quoted in the introduction, can be found.
These two articles enable a distinction to be made between the internal control of a company in general and the internal control regarding the elaboration and processing of accounting and financial information.
The LSF therefore differs from SOX which is only concerned with accounting and internal controls over financial reporting.

Originally applied to all limited companies, the obligation for the Chairman of the Board of Directors or of the Supervisory Board to produce a report was restricted, in July 2005, by the Confidence and Modernisation of the Economy Act (the Breton Act) solely to public limited companies.

The debate which preceded and accompanied the promulgation of the LSF helped to clarify the internal control concept. Corporate practices in this area, as observed over the last three years, do however reveal a certain variety.
It was this situation which prompted the AMF's decision to seek a practical transcription of the concept of internal control in a reference framework format.

1.2. THE APPROACH

The Working Group set up by the AMF favored a pragmatic approach, striving to reconcile:

- the best practices observed abroad,
- French regulations,
- the recommendations of the various reports on Corporate governance, and
- the developments under the 4th, 7th and 8th European directives

The key elements in the two main reference frameworks were therefore examined by the Group, namely the American COSO and the British "Turnbull guidance[3]".
From COSO, the group took inspiration from the five components, even if the terminology employed in the American reference framework is not duplicated exactly in the AMF Group document.
Let us recap the major features:

- **Control environment: -** The core of any business is its people- their individual attributes, including integrity, ethical values and competence- and the environment in which they operate. They are the engine that drives the entity and the foundation on which everything rests.
- **Risk assessment:** The entity must be aware of and deal with the risks it faces. It must set objectives, integrated with the sales, production, marketing, financial and other activities, so that the organization is operating in concert. It also must establish mechanisms to identify, analyze and manage the related risks;
- **Control activities:** Control policies and procedures must be established and executed to help ensure that the actions identified by management, necessary to address risks to achievement of the entity's objectives, are effectively carried out;
- **Information and communication:** Surrounding these activities are information and communication systems. These enable the entity's people to capture and exchange the information needed to conduct, manage and control its operations;
- **Monitoring:** The entire process must be monitored, and modifications made as necessary. In this way, the system can react dynamically, changing as conditions warrant.

[3] *Guide compiled by the ICAEW (The Institute of Chartered Accountants in England and Wales), published in 1999*

From Turnbull, the Group took on board the overall spirit, that is to say that of a guide - succinct – the aim of which is:

- *to demonstrate a sound, professional practice in which internal control is an integral part of the processes used by the company in pursuit of its objectives;*
- *to continue to be applicable in a constantly changing professional environment;*
- *to enable each company to implement it in such a way that it takes account of its own situation and specificities.*

The group has not dealt with the governance issue, taking the view that this aspect had been sufficiently covered by the legislator, the Viénot and Bouton reports and also by the OECD's corporate governance principles.
It did however take note of the Board of Directors and Supervisory Board responsibilities which are put forward (cf. appendix 3 – Main texts related to corporate governance).

In drawing up its Reference framework, the AMF Working Group also ensured that it complied with the work performed by the European Commission:

→ **4th and 7th accounting directives: the European Commission,** in the framework of its action plan adopted in 2002 for modernising company law and strengthening corporate governance, published amendment proposals (finally published in August 2006). In particular, it is stipulated that "*public companies […] should, each year, produce a description of the main features of the internal control and risk management systems […] in relation to the financial reporting process or, at the consolidated level, in relation to the process for preparing consolidated accounts. […]".*
It is important to emphasize that the 4th and 7th directives are descriptive in their approach, both with regards to internal control and risk management. Furthermore, the management risk area is only addressed from the perspective of its relation with drawing up accounts.

→ **8th directive on the statutory audit of accounts:** this proposal for a directive which was the subject of a political agreement in Council following its adoption at the end of September 2005 by the European parliament, raises the principle that "*public interest entities shall have an audit committee"*, while under certain conditions, leaving Member States the possibility to exempt them from this obligation. Hence, Member States may allow *"the functions assigned to the audit committee to be performed by the administrative or supervisory body as a whole" (article 39.1), or again, may allow or decide that none of the provisions regarding the audit committee apply to entities "that have a body performing equivalent functions to an audit committee, established and functioning according to the provisions in place in the Member State where the entity to be audited is registered" (article 39.5)".*
Among the possible functions of an audit committee […] those specifically mentioned are: monitoring the financial reporting process, monitoring the effectiveness of the company's internal control, internal audit, where applicable, and risk management systems".
It is also stipulated that *"the statutory auditor should report to the audit committee on key matters arising from the statutory audit, and in particular on material weaknesses in internal control in relation to the financial reporting process".*

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Hence, its in the framework of national and European legislative and regulatory provisions but also based on sound governance practices which are already recognised in France and on the two internal control models referred to above, that the AMF Working Group drafted the **present internal control reference framework.** Its ambition is to have global application.

It includes general internal control principles and two questionnaires of a general nature, one on accounting and financial internal control, the other relating to risk analysis and control, a significant component of any internal control system.

The accounting and financial internal control questionnaire is intended to become the backbone of a more in-depth document which could constitute the reference framework for internal control procedures regarding the elaboration and processing of financial and accounting information.

Once this technical document has been validated by the AMF Working Group, and the AMF has completed the public consultative process, the document will be made available to the appropriate company functions.
It will also be able to be used in drafting the Chairman's report regarding the internal control procedures covering the compilation and processing of financial and accounting information.

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The present reference framework is based on general principles and not on a set of mandatory rules.

Indeed, each individual company is responsible for its own organisation and hence its internal control, which should be developed within an overall framework of sound governance, as elaborated in the Viénot and Bouton reports.

Its not intended that this framework should be imposed on companies nor be a substitute for specific regulations in force in certain sectors of activity, notably the banking and insurance sectors.
It can be used by listed companies to supervise or, if necessary, to develop their internal control system, without however being prescriptive about the way their organisation should be designed.

In short, its a tool which should contribute to a more uniform approach to the concepts, underlying the drafting of chairmen's internal control reports, thereby making their comprehension easier for investors.

THE GENERAL PRINCIPLES OF INTERNAL CONTROLS

2.1 SUMMARY

DEFINITION

Internal control is a company's system, defined and implemented under its responsibility, which aims to ensure that:

- laws and regulations are complied with;
- the instructions and directional guidelines fixed by Executive Management or the Management Board are applied;
- the company's internal processes are functioning correctly, particularly those implicating the security of its assets;
- financial information is reliable;

and generally, contributes to the control over its activities, to the efficiency of its operations and to the efficient utilisation of its resources.

By helping to anticipate and control the risks involved in not meeting the objectives the company has set for itself, the internal control system plays a key role in conducting and monitoring its various activities.

However, internal control cannot provide an absolute guarantee that the company's objectives will be met.

SCOPE OF INTERNAL CONTROL

It is up to every company to design an internal control system which is suitably adapted to its situation.

In the case of a group, the parent company ensures that internal control systems exist within its subsidiaries. These systems should be adapted in line with their own individual characteristics and to the relationship that exists between the parent company and the subsidiaries.

COMPONENTS OF THE INTERNAL CONTROL SYSTEM

Executive Management or the Management Board conceives the internal control system. This system has to be appropriately communicated so as to ensure implementation by staff.

The level of involvement of Boards of Directors or Supervisory Boards with regards to internal control varies from one company to another. It is up to Executive Management or the Management Board to inform the Board (or its audit committee when there is one) of the main features of the internal control systems. If the need arises, the Board can exercise its general powers to subsequently have the controls and verifications it deems appropriate performed or take any other steps it considers suitable in the circumstances.

Internal control will be that much more relevant if it is based on rules of conduct and integrity upheld by the governance bodies and communicated to all staff. In no way can it be reduced to a purely formal system with serious breaches in business ethics taking place on the sidelines.

The internal control system, which is adapted to the characteristics of each company, provides for:

- **an organisation comprising** a clear definition of responsibilities, with suitable resources and competencies and supported by appropriate procedures, information systems, tools and practices;

- **the in-house dissemination of relevant and reliable information,** the awareness of which enables everyone to exercise their responsibilities;

- **a system** for identifying and analysing the main identifiable risks in relation to the company's objectives and for ensuring that procedures exist for managing those risks;

- **control activities** proportionate to the implications of each individual process and designed to reduce the risks that could affect the company's ability to achieve its objectives;

- **on-going monitoring** of the internal control system together with a regular review of the way its operating. This monitoring, which can usefully be reliant on the company's internal audit function when there is one, can lead to the internal control system being adapted. Executive Management or the Management Board should assess the parameters for notifying the Board of the main results of the monitoring and reviews thus performed.

2.2 DETAILED EXPOSÉ

DEFINITION

Internal control is a company's system, defined and implemented under its responsibility.

It comprises a set of resources, patterns of conduct, procedures and actions adapted to the individual characteristics of each company which:

- **contributes to the control over its activities, to the efficiency of its operations and to the efficient utilisation of its resources, and**
- **enables it to take into consideration, in an appropriate manner, all major risks, be they operational, financial or compliance.**

The system more particularly designed to ensurethat:

a) laws and regulations are complied with;
b) the instructions and directional guidelines fixed by Executive Management or the Management Board are applied;
c) the company's internal processes are functioning correctly, particularly those implicating the security of its assets;
d) financial information is reliable.

Internal control is therefore not limited to a set of procedures nor simply to accounting and financial processes.

Nor does it embrace all of the initiatives taken by the executive bodies or by management, such as defining company strategy, fixing objectives, management decisions, dealing with the risks or monitoring performance.

a) Compliance with laws and regulations

This refers to the laws and regulations to which the company is subject. The laws and regulations in force determine the behavioural standards that the company incorporates into its compliance objectives.
Given the large number of areas that exist (company law, commercial law, security, environment, social, etc.), the company's organisation needs to be structured in such a way so that it:

- is aware of the various rules that apply to it;
- can be informed in due time of any changes that are made to them (legal monitoring);
- can transpose these rules into its internal procedures;
- can inform and train staff on those rules which affect them.

b) Application of the instructions and directional guidelines fixed by Executive Management or the Management Board

The instructions and directional guidelines given by Executive Management or the Management Board enable staff to understand what is expected of them and to be aware of the scope of their freedom of action. These instructions and directional guidelines must be communicated to the staff concerned, based on the objectives allocated to each of them, so as to provide guidelines on how their activities should be conducted. These instructions and directional guidelines must be defined in line with the company's overall objectives and the inherent risks.

c) Correct functioning of the company's internal processes, particularly those implicating the security of its assets

All operational, industrial, commercial and financial processes are concerned.

In order for processes to function correctly, standards or operating principles have to be established and performance and profitability indicators set up.

By assets, must be understood not only the tangible assets, but also the intangible assets such as know-how, image or reputation, These assets can disappear in the wake of thefts, frauds, lack of productivity, errors, or result from a bad management decision or an internal control weakness. Special attention should be paid to the related processes in these cases.
Similarly for the processes involved in the elaboration and processing of accounting and financial information. These processes include not only those which deal directly with the preparation of financial reports, but also the operational processes which generate the accounting data.

d) Reliability of financial information

The reliability of financial information can only be obtained through the implementation of internal control procedures which are capable of faithfully recording all the operations performed by the organisation.
The quality of this internal control system can be targeted by means of:

- segregation of duties, enabling a clear distinction to be made between recording duties, operational duties and retention duties;
- function descriptions which should enable the origins of the information prepared to be identified, together with its recipients;
- an accounting internal control system enabling to check that the operations have been performed in accordance with general and specific instructions, and that they have been accounted for so as to produce financial information which complies with generally accepted accounting principles.

SCOPE OF INTERNAL CONTROL

It is the responsibility of every company to design an internal control system which is suitably adapted to their situation.

In the case of a group, the parent company ensures that internal control systems exist within its subsidiaries. These systems should be adapted in line with their own individual characteristics and to the relationship that exists between the parent company and the subsidiaries.

In situations where a parent company has a substantial holding interest, over which it has significant influence, that parent should take care to assess the possibility of acquainting itself with and examining the measures taken by its affiliate, in terms of internal control.

INTERNAL CONTROL COMPONENTS

Introduction

The principal directional guidelines in terms of internal control are determined in line with the company's objectives.
These objectives must be applicable to the various units of the entity and clearly communicated to staff so that they can understand and adhere to the organisation's risk and control policy.
Internal control will be that much more relevant if it is built on rules of conduct and integrity upheld by the governance bodies and communicated to all staff. In no way can it be reduced to a purely formal system with serious breaches in business ethics taking place on the sidelines.

It is true that the internal control system can not, in itself, prevent company staff from committing fraud, contravening legal or regulatory provisions, or communicating misleading information outside the company about its situation.
In this context, setting an example (or "Tone at the Top") is essential in disseminating values within the company.

Components

The internal control system consists of five closely related components.
Although these components apply to all companies, the way they are implemented will vary depending on the size and the business sector of companies.

These five components are as follows:

1) An organisation comprising a clear definition of responsibilities, with suitable resources and competencies and supported by appropriate information systems, procedures or operating methods, tools and practices

The implementation of an internal control system must be based on fundamental principles but also on:

→ **a suitable organisation** which provides the framework in which the activities implicit in meeting the objectives are planned, carried out, followed up and controlled;

→ **clearly defined responsibilities and powers** which are granted to the right people depending on the company's objectives. They can be formalised and communicated by means of task or job descriptions, operating and functional line organization charts, delegation of powers, and should respect the principle of the segregation of duties;

→ **a human resource management policy** which should enable people to be recruited with the appropriate knowledge and competencies required to carry out their responsibility and to meet the current and future objectives of the company;

→ **information systems** which are adapted to the current objectives of the organisation and designed to be able to respond to its future objectives. The IT systems on which these information systems depend must be effectively protected, both in terms of physical and logical security, thereby ensuring that there is no loss of the information stored. Their operational continuity is guaranteed by back-up procedures. The information on the analyses, the programming and processing functionalities must be documented;

→ **operating procedures or methods** which specify the way in which an action or process should be carried out (objectives to be achieved within a given time-frame, definitions of functions and operating/reporting lines, policy framework, decision-making and assessment tools, control frequency, person responsible for the control, …), regardless of their format and type of support aid.

In this context and with reference to article L225-235 of the commercial code, the CNCC (National Institute of Statutory Auditors), in a technical opinion, provided the following explanation "*the internal control procedures regarding the elaboration and processing of accounting and financial information mean those that help the company to prepare the accounts and the information on the financial situation and those accounts. This information is that which is taken from the annual or consolidated accounts or which can be reconciled with the source accounting data which was used to prepare those accounts*".
Section 3 lists some of the questions that may be considered in respect of the accounting and financial procedures designed by the company;

→ **tools** or work facilities (office automation, IT) which are adapted to everyone's needs and which every user should be suitably trained in;

→ **practices** which are commonly accepted within the company.

2) The in-house dissemination of relevant and reliable information, the awareness of which enables everyone to exercise their responsibilities

The company should employ processes which ensure that all relevant and reliable information is communicated in a timely manner to all relevant players within the company, thereby enabling them to exercise their responsibilities.

3) A system for identifying and analysing the main identifiable risks in relation to the company's objectives and for ensuring that procedures exist for managing those risks

Given the ever-changing environment and regulatory context, companies implement methods to identify, analyse and manage the risks, both internal and external, with which they may be confronted and which could reduce the likelihood of them meeting their business objectives.

→ **Risk identification**

The company identifies the main identifiable risks, both internal and external, which could have an impact on the likelihood of it meeting the objectives it has fixed for itself. This identification process, which is on-going, should cover those risks which could have a significant impact on its situation.

→ Risk analysis

This involves taking into consideration the likelihood of the risks occurring and their potential seriousness, as well as considering the environment and existing control measures. These different elements are not static, on the contrary, they form part of the risk management process.

→ Risk management procedures

Executive Management or the Management Board, supported by a risk management function, if there is one, should define risk management procedures.

Section 3 lists some of the questions that may be considered in respect of these procedures.

4) Control activities proportionate to the implications of each individual process and designed to ensure that the appropriate measures are taken in order to control the risks that could affect the company's ability to achieve its objectives

Control activities can be found everywhere in the organisation, at every level, and in every function, be they controls focusing on prevention or detection, manual or computerised controls, or controls by virtue of the reporting structure.
In any event, control activities are determined in the light of the nature of the objectives with which they are associated and are proportionate to the implications of each process. In this context, particular attention should be paid to the controls over the processes involved in designing and running information systems.

5) On-going monitoring of the internal control system together with a regular review of the way it is operating.

As for any system, the internal control system requires on-going monitoring. The aim is to check its relevance and appropriateness to the company's objectives.
Implemented by management and steered by the Executive Management or the Management Board, this monitoring principally comprises the analysis of the main incidents that have been recorded, the result of the controls performed, together with the work carried out by the internal audit team, when there is one. This monitoring also takes into consideration the observations made by the statutory auditors and by regulatory oversight bodies.

Another useful complement to the monitoring tools can be to keep an active watch on internal control best practices.
Monitoring, together with the best practices watch, culminate, where required, in the implementation of corrective actions and adjustments to the internal control system.

Executive Management or the Management Board should assess the parameters for informing the Board of the main results of the monitoring and reviews thus performed.

INTERNAL CONTROL PLAYERS

Internal control is a matter of concern to everybody, from the governance bodies to the company's entire staff.

→ The Board of Directors or the Supervisory Board ("the Board")

The level of involvement of the Boards of Directors or Supervisory Boards as regards internal control varies from one company to another.

It is up to Executive Management or the Management Board to inform the Board (or its audit committee when there is one) of the main features of the internal control system. If the need arises, the Board can exercise its general powers to subsequently have the controls and verifications it deems appropriate performed, or take any other steps it considers suitable in the circumstances.

When there is one, the Audit Committee should monitor the internal control system closely and on a regular basis.

In order to fulfil its responsibilities, with full knowledge of the facts, the Audit Committee can interview the internal audit manager, give its opinion as to how his department is organised and be updated on the department's work. Internal audit reports, or a periodic summary of them, should therefore be passed on to the Committee.

→ Executive Management / the Management Board

It is up to Executive Management or the Management Board to define, drive and monitor the system deemed to be the most suitable for the specificities and activity of the company. Within this framework, they receive regular updates concerning any problems it may encounter, its inadequacies and its application difficulties, or even any excessive demands it may be causing, and they ensure that all necessary corrective actions are undertaken.

→ Internal audit

When there is one, the internal audit department is responsible for assessing the operation of the internal control system and for making recommendations to improve it, within the scope of its audit engagements.

It raises the level of awareness and usually dispenses management training on internal control, but is not directly involved in the design or the day-to-day running of the system.
The internal audit manager reports to Executive Management, and depending on the approach adopted by each company, to the governing bodies, on the main results of the monitoring performed.

→ Company staff

Each member of staff concerned should possess the appropriate knowledge and information to be able to design, operate and monitor the internal control system, as applied to the objectives which have been allocated to him. This applies to operational managers who are directly involved with the internal control system but also internal controllers and financial management staff who have an important monitoring and controlling role to play.

LIMITATIONS INHERENT IN INTERNAL CONTROL

However well conceived and applied the internal control system might be, it cannot provide an absolute guarantee that the company's objectives will be met.

The likelihood of meeting these objectives does not depend solely on the will of the company. There are in fact limitations which are inherent in any internal control system. These limitations are due to several factors, notably to the uncertainties in the outside world, to the exercise of people's judgement or to problem areas that can arise as a result of human failure or of a simple error.
In addition, when implementing controls, it is important to bear in mind the cost / benefit relationship and not to develop internal control systems which are unnecessarily costly, even if it means accepting a certain degree of risk.

APPLICATION GUIDE FOR INTERNAL CONTROL PROCEDURES RELATED TO THE ACCOUNTING AND FINANCIAL INFORMATION PUBLISHED BY THE ISSUERS

III - APPLICATION GUIDE FOR INTERNAL CONTROL PROCEDURES RELATED TO THE ACCOUNTING AND FINANCIAL INFORMATION PUBLISHED BY THE ISSUERS

INTRODUCTION

Preamble

This is an Application Guide to the general principles governing internal control procedures related to the preparation and processing of accounting and financial information for publication.

The guide is not a binding set of rules or standards; it is a tool to enable management bodies (senior management, management boards, financial departments, etc) and decision-making bodies (boards of directors, supervisory board) to understand and improve their internal control system for accounting and financial reporting.

It is designed to help companies and entities, especially those that are publicly listed, that wish to analyse their accounting and financial internal control procedures.

This Application Guide covers the principles and key analytical points that apply in all business sectors, except those sectors covered by specific rules, such as banking and insurance.

In view of the specific characteristics of each company and the need for internal control arrangements to be flexible and tailored to existing organisational structures, this presentation does not claim to be exhaustive. Neither does it insinuate that all the points it covers are applicable, that all of them need to be included, or that their absence must be explained. Possible discrepancies between a company's practices and these principles do not necessarily indicate inadequate internal control of accounting and financial reporting.

The approach focuses on the factors that contribute to the preparing and processing of accounting and financial information for publication.

Definitions

Internal control of accounting and financial information is effected through a system designed and implemented by a company to ensure, as far as possible, that the accounting and financial aspects of its business are rigorously managed and monitored so as to meet the objectives set out below.

Internal control of accounting and financial information is a key component of internal control. It covers the processes for producing and disseminating companies' accounting and financial information and contributes to the production of reliable information that complies with legal and regulatory requirements.

As for general internal control, it relies on an overall system that includes the design and implementation of the company's information system, as well as the policies and procedures for monitoring, supervision and control.

Objectives

Internal control of accounting and financial reporting is intended to ensure that:

- accounting and financial information complies with applicable rules;
- the instructions and guidelines given by senior management or the Management Board on the strength of this information are properly implemented;

- the company’s assets are safeguarded;
- fraud and accounting and financial reporting problems can be detected or prevented as far as possible;
- the information disseminated and used internally for the purposes of monitoring and control is reliable, insofar as it is used in the preparation and processing of published accounting and financial information;
- the financial statements and other information provided to the market are reliable.

Scope

Internal control of accounting and financial information covers the parent company and consolidated companies (“the group”), if consolidated financial statements are produced.

Persons and bodies concerned

Internal control of accounting and financial information involves most of the key players in the company, who have different responsibilities and roles depending on the subjects being dealt with. Three corporate governance players are particularly closely involved:

- Senior management (or the Management Board) is responsible for organising and implementing internal control of accounting and financial information, as well as for compiling financial statements for each accounting period. To simplify matters, the term “senior management” will be used in the rest of this document to mean “senior management or the Management Board,”

- The Board of Directors, or the Management Board, which compiles the financial statements, and the Supervisory Board, which, like the Board of Directors, carries out such audits and verifications of the financial statements as it deems appropriate. To simplify matters, only the term “Board of Directors” will be used hereafter. Preparations for these tasks can be made by the Audit Committee, if the company has one;

- The Chairman of the Board of Directors (or the Chairman of the Supervisory Board), who is responsible for compiling the report on internal control procedures, including those relating to the preparation and processing of accounting and financial information.

The internal audit function, if one exists, can help these players by making proposals to improve the quality of internal control processes for published accounting and financial information.

Statutory auditors are not part of the internal control system. They certify the financial statements and, as part of their task, they review internal control procedures to identify and assess the risk of material discrepancies in the financial statements, in order to design and implement their audit procedures. They present their remarks about the Chairman’s report on internal control. In this area, they do not replace the company and their work does not replace the work carried out by the company.

Control environment

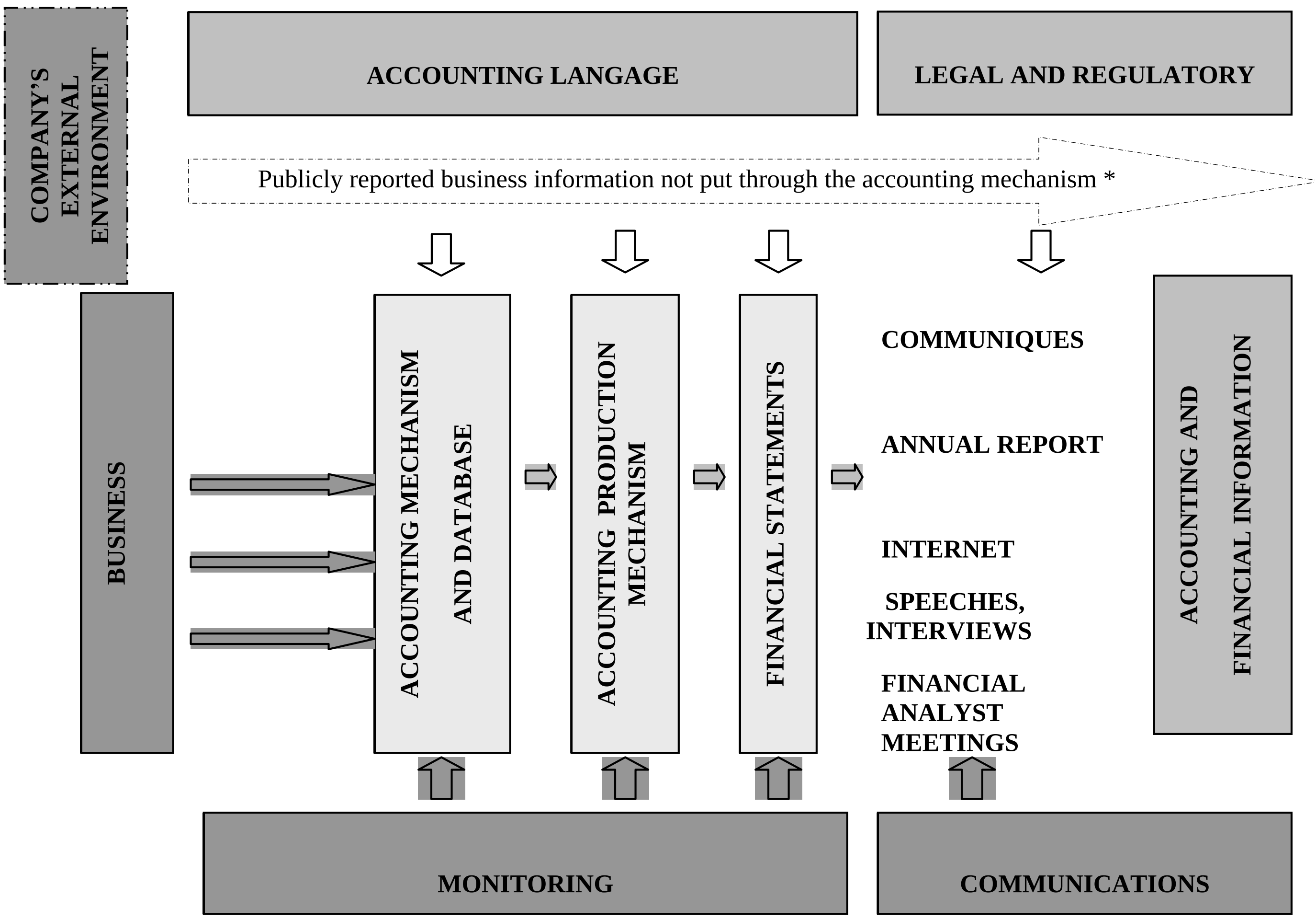
The internal control system for accounting and financial information must be more than just a set of procedural manuals and documents. The organisation and implementation of internal control hinges on the awareness and participation of the people concerned. The control environment thus encompasses the actions of the people and bodies involved in the internal control of accounting and financial information.

In this respect, consideration of the players' ethical values, integrity and competence (see reference framework)[4] is critical in the more specific area of internal control of accounting and financial information.

Accounting processes

The accounting processes at the heart of internal control of accounting and financial information are a set of uniform activities that transform business transactions – all the basic events that make up the company's business – into accounting and financial information by putting them through the "accounting mechanism", composed of accounting policies and ground rules. They include an accounting production system, preparation of financial statements and communications.
The diagram below shows that the processes involved in producing the information are not solely within the "conventional scope" of the Accounts and Financial Reporting Department.

[4] In view of the requirement in the Financial Security Act (Article 225-37 of the Commercial Code) that the Chairman of the Board of Directors or the Supervisory Board draft a report on internal control procedures, the AMF set up a Working Group in April 2005 to choose or adapt an Application Guide for internal control. The Working Group presented a reference framework on 9 May 2006 that takes into account French and European legal and regulatory provisions, as well as accepted good governance practices in France.



** Publicly reported business information that is not put through the "accounting mechanism" is separate from published accounting and financial information. Such information is not addressed in this Application Guide.*

The accounting processes presented in this Application Guide exist in all companies. However, the approach used here is deliberately independent of organisational characteristics, such as:

- Whether the information systems are integrated or not (in an Enterprise Resource Planning application, for example);
- Whether accounting is centralised, decentralised or outsourced;
- The players' identities and functions.

Application Guide outline

The "accounting processes" discussed in this Application Guide can be broken down into two major groups:

- **Monitoring processes for the accounting and financial reporting structure;**

- **Processes involved in preparing published accounting and financial information. These are further broken down into:**
    - **Upstream processes (purchasing, sales, cash management, etc.) that provide the information for the accounting database and for the accounting and financial information production processes;**
    - **Financial statement preparation and financial communication processes.**

This Application Guide presents the internal control components for accounting and financial reporting that ensure effective control of these three groups of processes.

1. MONITORING PROCESSES FOR THE ACCOUNTING AND FINANCIAL REPORTING STRUCTURE

The objectives of the monitoring processes for the accounting and financial reporting structure are to define and implement accounting policies and to manage resources and constraints in order to meet senior management's objectives. Monitoring of the accounting and financial reporting structure is based on the principles and key analytical points discussed in detail below. This monitoring is the task of the Accounts and Financial Reporting Departments, as well as senior management.

1.1. Principles and key analytical points

To ensure the overall coherence of this process, it is important to make sure that:

- Functions are separated in such a way as to ensure that the control process is independent. This functional separation is appropriate to the company's circumstances and an effort is made to segregate tasks and functions relating to operational factors, the protection of assets and their recognition in the accounts;

- The names of the persons with power of signature and the various levels of approval required, according to the type of obligations entered into, are defined and made available to the persons responsible for recording them so that they can ensure that the transactions have received proper approval.

When consolidated financial statements are produced, it is important to ensure that an organised and documented arrangement exists to ensure the uniformity of published consolidated accounting and financial information.

1.1.1. General organisation

- Internal documentation sets out and explains the principles for recognising and controlling transactions and the related financial flows.

- Information channels must be set up to:

    - Ensure comprehensive capture of business events for each upstream process (purchasing, sales, personnel, legal affairs, obligations, events after the cut-off date, etc.);

    - Provide rapid and periodic centralisation of data for the accounts department;

    - Ensure the uniformity of accounting data.

- Controls must be established to ensure implementation of information circuits.

- A timetable must govern the preparation of accounting and financial information disseminated within the group for the purposes of the parent company's published financial statements.

- The people responsible for preparing published accounting and financial information and the various players contributing to the financial statements must be clearly identified.

- Each employee involved in the process of preparing accounting and financial information must have access to the information needed to apply, operate and/or supervise the internal control system.

- Senior management must set up a structure that is responsible for ensuring that the controls are applied.

- The Accounts Department must have the authority to enforce accounting rules.

- Procedures must be established to verify that controls have been implemented, to identify any deviations from the rules and to remedy them if necessary.

1.1.2. Resources management

- A process has been established to identify the resources required for the smooth operation of the accounting function.

- Monitoring has been established to adjust manpower and skills to the scale and the complexity of transactions and to adapt to changing needs and constraints.

1.1.3. Enforcement of accounting rules

- A manual of accounting principles and/or procedures must set forth the accounting concepts used within the group and identify the treatment for the largest transactions and complex accounting treatments specific to the business sector of the group.

- A procedure has been established for updating the manual of accounting principles and/or procedures to cover complex new accounting issues.

- If financial statements are published in accordance with several sets of accounting standards at individual company or consolidated level, procedures must be established for explaining the main restatements.

- Information needed for the consolidation of the financial statements must be produced at the most appropriate place within the group.

- A regulatory watch procedure must be established to identify and anticipate changes in the company's environment (management of different accounting standards and divergences between them, changes in accounting doctrine and tax rules. Specialists should be called in as appropriate).

1.1.4. Control of accounting rules

- The processing and production of consolidated and subsidiaries' accounting and financial information (schedule of cut-off dates, adjustment of parent company accounts, etc.) must be controlled.

- Rules of conduct and ethics must be established to deal with accounting issues.

- Regular audits must be carried out to ensure compliance with the manual of accounting principles and the manual of accounting procedures.

- Specific audits must be conducted with regard to accounting aspects that are identified as business-critical, such as recognition of assets, recognition of earnings, matching of revenues and expenses, inventory valuation, etc.)

- Mechanisms must be established to identify, trace and deal with incidents and problems systematically.

1.1.5. Organisation and security of information systems

The following processes must be used to control the components of the accounting information production tool:

- The use of computerised accounting systems calls for a clear and formalised organisational structure, and measures to ensure the physical security of computer systems and data integrity;

- Information systems have been developed to meet requirements with regard to the security, reliability, availability and relevance of accounting and financial information;

- Overall information system organisation and operations must be governed by specific rules on system access, validation of processing, cut-off procedures, record keeping and verification;

- Procedures and controls must be established for quality assurance and operational security, for maintenance and development (or parameterisation) of accounting and management systems[5], along with other systems that provide data directly or indirectly to accounting and management systems;

- Critical information system controls must be established (preventing duplicate entries, thresholds for entries, limited access for critical transactions, automated reconciliations, etc.);

- Information systems used for accounting and financial information must be adapted as the company's needs change;

- The company must be capable of meeting the specific requirements of the tax authorities:

    - Storage of data processed by computer applications that prepare accounting records or substantiate transactions recorded in the documents filed with the tax administration;

    - Documentation: Data and file management rules implemented by computer programs that contribute to the determination of book income, taxable income and tax returns must be described;

[5] In this case, management systems that contribute to the preparation and processing of published accounting and financial information.

1.2. Role of senior management

1.2.1. Organisation, powers and resources

Senior management must ensure that an internal control system for accounting and financial reporting is in place and must organise supervision of the system. The system must be aimed at producing reliable accounting and financial information and providing a true and fair view of the company's earnings and financial situation in a timely manner. To this end, senior management must ensure that the system addresses the following points:

- The organisational structure and scope of responsibilities of the accounting and financial reporting functions ensure that the group has appropriate risk identification and control systems to ensure that the accounting and financial information published by the parent company is reliable;

- Incentive and compensation arrangements within the accounting and financial reporting functions are compatible with the internal control objectives;

- Accounting rules and procedures are formalised and disseminated (standards and procedural manuals);

- Record keeping requirements for information, data and processing routines used directly or indirectly to prepare accounting records and financial statements;

- Measures taken to ensure the retention and security of information, data and processing routines that contribute directly or indirectly to the preparation of financial statements (business continuity plans, especially for computer operations, archiving systems that comply with regulatory requirements, etc.);

- Periodic review of the suitability of the systems cited above and the resources made available to the accounting and financial reporting functions (e.g. human resources, data processing tools, etc.)

1.2.2. Monitoring and control

Senior management must ensure that a monitoring system is established to analyse and control the main identifiable risks that could potentially have an impact on the preparation of the accounting and financial information that the company publishes.

- More specifically, senior management must ensure that the standards and procedures disseminated within the company give due consideration to changes in the group's needs and in its environment (especially the regulatory environment). For this purpose, senior management must ensure that an appropriate process is established for identifying, explaining and validating changes in accounting principles.

- It must ensure that a management control system is established to meet the reliability requirements for published accounting and financial information:

    - Senior management must ensure that any non-compatible information system that might be used for monitoring business activities is reconciled with the accounting information system;

    - It must also provide quality assurance for forecasts that are published or used to measure the value of assets and liabilities, or for any other published accounting and financial information.

  This means that the management control system must be organised to ensure that the quality of information and forecasting is fit for this purpose (appropriate schedule for updating information, indicators and tracked information, suitable standard of variance analyses and the budget and forecasting process).

- When an internal audit structure is in place, senior management must ensure:

    - The suitability of the accounting and financial audit structure's organisation, powers, methods and tools;

    - The relevance of internal audit plans.

  It must also be informed of the internal audit function's findings and ensure that adequate remedial plans of action are implemented.

- Senior management must conduct a formal review of the accounting principles that have a material impact on the presentation of financial statements.

- Senior management must ensure that the internal control system for accounting and financial reporting is supervised. It must be informed periodically of malfunctions, shortcomings and enforcement problems, and ensure that remedial action is taken. It could be helpful to base this supervision process on the internal audit function, if one exists.

1.2.3. Preparing financial statements

- Senior management must ensure that a recording process has been established for major transactions, such as business acquisitions or disposals, restructuring and closing of key contracts, and that there is a validation process for these records.

- Senior management must obtain appropriate information about unconsolidated entities and examine the grounds for excluding them from the consolidation.

- Senior management must ensure that cut-off procedures are established for accounts that are deemed to be critical (revenue recognition, valuation of key assets, etc.)

- It must ensure that processes for determining and validating estimates, included in the published statements or financial information, are defined and implemented to ensure the quality of such estimates (information used, departments or persons involved, technical competence, etc.)

- It must ensure that the Accounts and Financial Reporting Department has compatible quality control systems (identification of suspense items, unanalysed accounts, unreconciled items or unapproved items, etc.) so that it can take remedial measures.

- If there are any exceptions to the procedures for preparing consolidated financial statements applying to consolidated subsidiaries, senior management must ensure that procedures have been implemented to compensate for non-compliance with the group's rules.

Senior management must prepare the financial statements, including the notes. For this purpose:

- They must specify and explain the main options and estimates that are based on their own judgment;
- They must highlight any changes in accounting principles and notify the Board;
- They must ensure that the major financial ratios (debt ratio, quick ratio, interest rate cover ratio, etc.) are analysed, and identify and explain the factors responsible for changes in earnings (current year versus previous year);
- They must prepare financial statements for cut-off dates and include the Accounts and Financial Reporting Department's comments and analysis;
- They must define the investor relations strategy (indicators, procedures, etc.) and propose or draft financial news releases.

1.2.4. Consideration of the statutory auditors' work

As part of its responsibility for preparing the financial statements and implementing internal control systems for accounting and financial reporting, senior management must hold discussions with the statutory auditors.

- They must ensure that the statutory auditors have reviewed the accounting principles and options that have a material impact on the presentation of the financial statements.
- They must ask the statutory auditors about the scope of their work and procedures. They must also read the findings of the statutory auditors' work on the financial statements.
- They must ensure that the statutory auditors are notified of any major shortcomings in internal control identified in the course of the financial year that are likely to have a material impact on the published accounting and financial information.
- They must ensure that any major internal control problems or shortcomings pointed out by the statutory auditors are given due consideration in the company's remedial measures.

1.3. Role of the Board or Directors or the Supervisory Board

1.3.1. Control and verification

As part of its preparation and supervision of accounting and financial information and the communication of such information, it is critical for the Board to be informed of any major aspects that are likely to jeopardise business continuity.

As in all other areas, the law gives the Board the right to carry out any controls and audits that it deems necessary. This means it can check with senior management that the monitoring and control systems are capable of ensuring that the financial information published by the company is reliable and provides a fair view of the company's and the group's earnings and financial situations.

To exercise this control:

- The audit committee, if the company has one, can carry out preparatory work.

- They must be notified of the key characteristics of the company's and the group's monitoring systems and, more specifically, the risk monitoring, management control, finance and cash monitoring systems, as well as controls carried out by the internal audit function or any other functions;

- They can ask to be informed of the main processes for collating and communicating accounting and financial information;

- As appropriate, they must be informed of any changes in accounting methods and accounting options used by the company that have a material impact on the presentation of financial statements;

- They must provide quality assurance for the process of selecting statutory auditors, especially with regard to the competence and independence criteria applied;

- They must be informed of key events in the company's business and its cash position if they are likely to jeopardise business continuity (in the second case, the cash flow considered in the analysis presented to the Board must indicate the components that cannot be used unrestrictedly).

- Furthermore, the Board must be informed of:

    - publicly reported earnings projections, when it deems such information appropriate;

    - major investment, disposal or financing plans;

- As appropriate, the Board must also be informed of the material facts regarding acts of fraud, violations of laws and regulations, and major internal control shortcomings that are likely to be taken into account when preparing the financial statements;

1.3.2. Approving financial statements

The Board of Directors or the Executive Board must approve the annual financial statements and examine the interim financial statements. For this purpose, it must obtain any information that it deems necessary, such as information about cut-off options, estimates, changes in accounting methods and explanations about earnings components and the presentation of the balance sheet, the financial position and notes to the financial statements.

1.3.3. Relations with statutory auditors

- The statutory auditors must confirm to the Board that they have had access to all the information needed to carry out their duties, especially in the case of consolidated companies.

- The Board must be informed of the statutory auditors' scope of action and working procedures, as well as their findings.

- They must ensure that any major internal control problems or shortcomings pointed out by the statutory auditors are given due consideration in the company's remedial measures.

- The Board must be given the statutory auditors' assurance that they have made enough progress on their work at the cut-off date to be able to present all their material observations.

2. PROCESSES INVOLVED IN PREPARING PUBLISHED ACCOUNTING AND FINANCIAL INFORMATION

2.1. Quality criteria

The quality of accounting and financial information also depends on proper identification of the risk of error inherent in accounting processes. This identification may be based on various criteria and compliance with such criteria should be the goal, so that the information in the financial statements presents a true and fair view. These criteria, which are explained below, have been taken from the Decree of 19 July 2006 on the professional code of practice for statutory auditors with regard to the probative value of evidence gathered.

Upstream processes and accounting production processes

1. Materiality: The recorded transactions and events actually took place and are related to the entity;
2. Exhaustiveness: All of the transactions and events that should have been recorded have been recorded;
3. Measurement: The amounts and other data relating to transactions and events must have been recorded correctly;
4. Accrual basis: Transactions and events have been recorded in the right period;
5. Classification: Transactions and events have been recorded in the relevant accounts;

Financial statement preparation process

1. Existence: the assets and liabilities truly exist;

2. Rights and obligations: The entity owns and controls the rights to the assets and the liabilities correspond to the entity's obligations;

3. Exhaustiveness: All assets and liabilities that should have been recorded have actually been recorded;

4. Valuation and allocation: Assets and liabilities are recorded in the financial statements with appropriate amounts and all the adjustments resulting from their valuation or allocation are recorded correctly;

5. Presentation and comprehension: Financial information is presented and described appropriately, and the information provided in the notes to the financial statements is presented clearly.

6. Materiality/Rights and obligations: The events, transactions and other elements provided actually took place and are related to the entity;

7. Exhaustiveness: The notes to the financial statements present all of the information required by accounting standards;

8. Measurement and valuation: Financial and other information is presented fairly and the amounts given are reliable.

2.2. Identifying risks affecting the preparation of published accounting and financial information

The quality of published accounting and financial information depends heavily on the reliability, regularity of dissemination and exhaustiveness of information from the "upstream processes," as well as on accounting production and financial statement preparations. Accordingly, quality depends on a proper command of the processes discussed below.

Upstream processes and accounting production processes

- Identifying upstream processes/significant transaction categories and the relevant accounts or groups of accounts.

- Defining control activities to be implemented to prevent, detect or remedy risk areas, irregularities and inaccuracies, as well as fraud and error prevention procedures.

- Identifying applicable legal and regulatory provisions relating to accounting, tax and financial reporting.

- Safeguarding assets to ensure the protection of the company's assets and means of production, etc.

- Traceability of information (audit trail) and adequate documentation to ensure that accounting events occurring in the company are properly identified and documented.

- Compliance with processes aimed at ensuring the reliability of the information needed to produce the published financial statements.

- Accuracy and exhaustiveness of accounting records.

- Compliance with accounting rules.

Financial statement preparation process

- Neutrality, objectivity and relevance of the published accounting and financial information with regard to the users' needs, the timeliness and the comprehension of such information.

- Definition and dissemination to all integrated entities of the procedures for preparing consolidated financial statements that comply with these criteria.

- Traceability of accounting entries within information systems.

- Verification before compiling the consolidated financial statements (compliance with accounting standards and the group's practices, tests of reasonableness, etc.)

- Financial statement analysis systems (control methodology, identification of the persons in charge of analysis and supervision, nature of analyses and documentation).

2.3. Principles and key analytical points

Accounting processes are often set up to deal with flows of uniform or similar transactions (e.g. structure by categories of transactions). This Application Guide proposes adaptations of quality criteria for each transaction category (sales, purchasing, etc.) that can be applied to each of the accounting processes.

The following principles and key analytical points have been formulated in affirmative, rather than interrogative form. They can be used to identify the main risks that might affect the processes involved in preparing accounting and financial information.

Control of accounting processes is the responsibility of the Accounts and Financial Reporting Department, senior management and the Board of Directors, according to their respective areas of competence.

For all transaction categories discussed below, the company may ensure that organised and documented systems are established to provide uniform accounting and financial information for consolidated financial statements.

2.3.1. Investment / Divestment / research and development

Control of the upstream processes and accounting production processes

- Investment and divestment are covered by an organised and documented process that calls for notification of the accounts department.

- Regarding research and development expenditure:

  - The research and development phases of projects are defined clearly and are distinct;

  - The accounting rules used by the company define the requirements for capitalising development costs.

Control of the financial statement preparation process

- A verification conducted on the cut-off date confirms that the requirements for capitalising development costs are still being met.

2.3.2. Tangible and intangible assets, and goodwill

Control of the upstream processes and accounting production processes

- The accounting rules used by the company define:

- Identification criteria for fixed assets, including the rules for distinguishing between current costs (maintenance and repairs) and capitalised costs;

- Recognition criteria for fixed assets that deal with the following questions:

    a. The items that constitute capital costs for fixed assets, including procedures for determining and monitoring the cost of rehabilitating sites in the case of tangible assets;

    b. Depreciation and amortisation methods and start dates. This item includes procedures for applying the component-based approach and the procedures used to determine residual values;

    c. The criteria for determining impairment losses and, more specifically, the procedure for determining the discount rate and the level (sectors, for example) at which cash generating units are defined and rates are calculated;

    d. Held-for-sale classification criteria;

    e. Categories of revalued assets and the revaluation method used (fair value or index).

- These rules are reviewed periodically.

- Movements of fixed assets are tracked for recognition purposes.

- Commitments for fixed asset purchases are tracked so that they can be included when preparing the notes to the financial statements.

- The classification of financial and operating leases is set out clearly for the purposes of accounting treatment.

- Tangible fixed assets are verified periodically by taking inventory. Write-offs or disposals of assets are subject to a manager's approval and the necessary accounting adjustments are made.

- Title documents are properly protected (minimum compliance with legal obligations, for example).

- Disposals of assets are subject to an authorisation procedure that is disseminated within the entity.

- A process for identifying, recognising and tracking intangible assets and goodwill has been established, especially for goodwill and the cost of acquiring brands, licences, patents, business, customer files, other contractual rights, etc.

- Legal and software protection of intangible assets is monitored regularly and measures are taken to secure the resources that the company may derive from such assets (brand protection, domain names, etc.)

Control of the financial statement preparation process

- If the fair value method is used, valuations are made by specialists or on the basis of regularly updated market data.

- A procedure for identification of impairment loss indices is implemented at least once a year and systematically on each cut-off date for unamortisable intangible assets, intangible assets in progress and goodwill.

2.3.3. Long-term investments

Control of the upstream processes and accounting production processes

- Securities transactions (acquisitions, disposals, price supplements, asset and liability guarantees) are tracked for recognition.

- Outright and optional obligations of all kinds (commitments, calls, puts, etc.) are identified for the purposes of recognition or inclusion in the notes to the financial statements.

- Loans granted, especially to subsidiaries, are subject to an organised process.

- Title documents and loan contracts are properly protected.

- If consolidated financial statements are drawn up under IFRS, the classification rules for the various financial instrument categories defined in IAS 39 have been clearly established and a procedure is used to verify that the classification decision has been duly authorised, from the inception of the transaction.

Control of the financial statement preparation process

- Earnings from long-term investments are valued on each cut-off date.

- At each cut-off date, an objective indicator of impairment of financial instruments is assessed. The impairment losses to be recognised are determined, as appropriate.

2.3.4. Purchases / Trade payables

Control of the upstream processes and accounting production processes

- The purchasing process has been organised with formal procedures to be applied by all the players concerned.

- The functions for ordering and authorising orders are separated, as are the functions for receiving and recording purchases and for paying suppliers.

- Major purchases are subject to an official purchase order that has been validated by a duly authorised person.

- Purchase orders are tracked and reconciled with receiving reports and invoices (quantities, prices, payment terms). Any discrepancies found are analysed and monitored.

- A system has been established to prevent double recording or double payment of suppliers' invoices.

- Prepayments of suppliers' invoices are controlled (authorisation, tracking, accounting entries).

- Rejected deliveries and disputes are monitored, along with the recognition of supplier credit notes corresponding to discounts and rebates.

- An independent and duly authorised person controls the management of supplier payments.

- Suppliers' accounts are examined and substantiated periodically (exhaustiveness, accuracy).

Control of the financial statement preparation process

- A procedure has been established to ensure that income and expenses are recorded in the correct period.

- A system has been established for complete and accurate recording of provisions for invoices to be received or prepaid expenses.

2.3.5. Costs / Inventories and works in progress / Long-term or construction contracts

Control of the upstream processes and accounting production processes

- Physical inventory is taken (at least one a year or, in the case of perpetual inventories, during cycle counts).

The processes may concentrate on ensuring that:

- Physical deliveries of commodities or components are entered in inventory and recorded in the accounting systems;

- Inventory disbursements to production are recorded in the accounting system;

- Production costs are calculated appropriately and the relevant expenses are recognised fully and accurately (if such costs are used for inventory valuation);

- The calculation of production costs is consistent with real accounting items;

- Other items that can be used to value inventories, such as net cost of purchases, entries and disbursements, are duly recorded, retained and updated.

- Margins are monitored in order to ensure correct tracking of inventory impairment;

- The accounting rules that the company applies to long-term contracts or construction contracts (IAS 11) define a reliable procedure for measuring stages of completion and correctly identify losses on completion;

- All recorded inventory is adequately protected, owned by the company and/or fits the definition of an asset.

Control of the financial statement preparation process

- A procedure has been established to ensure accruals are correctly recorded.

- A system has been established for ensuring that work-in-process inventory is consistent with orders received and work in progress.

- A process has been established to ensure that impairment provisions are estimated and booked as appropriate.

2.3.6. Ordinary income / Trade receivables

Control of the upstream processes and accounting production processes

The processes may be aimed at ensuring that:

- The company's accounting rules make a clear distinction between sales and the provision of services, and describe the procedures used to decompose contracts with multiple components, when necessary;

- Ordinary sales income is recognised if all of the following conditions have been met:

  - The company has transferred the major risks and benefits inherent in ownership of the goods to the purchaser;

  - The company is no longer involved in the management usually incumbent upon the owner of the goods, or in the actual control of the goods sold;

  - The amount of ordinary sales income can be reliably determined;

  - The economic benefits associated with the transactions are likely to accrue to the company, and;

  - The costs incurred or to be incurred in the transaction can be determined reliably.

- All of the deliveries made (or services rendered) have been invoiced during the appropriate period;

- All sequentially numbered invoices have been recorded in the customer accounts or directly as sales revenue;

- Issuance of credit notes is substantiated and verified. Only verified credit notes are recorded in the accounts;

- A genuine separation has been established between invoicing and collection functions;

- A genuine separation has been established between the collection and customer account management functions;

- All customer accounts correspond to actual customers;

- The account balances are correctly substantiated periodically;

- Delinquent accounts are correctly identified and insolvency risks are recorded in the accounts in compliance with the applicable rules.

A system has been established to exclude income that has been invoiced or is to be invoiced on behalf of other parties from ordinary sales income.

Control of the financial statement preparation process

- A procedure has been established to ensure that income and expenses are recorded in the correct period.

- A system has been established to record invoices to be issued or prepaid income completely and accurately.

- Impairment loss provisions are reviewed for re-measurement, as appropriate (for example, on the basis of an aged trial balance, or on the basis of the latest developments in disputes with customers).

2.3.7. Cash / Financing and financial instruments

Control of the upstream processes and accounting production processes

- Financing and cash are subject to organised processes (procedures, assignment of powers, etc.) and formal criteria.

The processes may be aimed at ensuring that:

- The cash plan can be used to monitor foreseeable developments in the company's own cash holdings and, where appropriate, the cash holdings of subsidiaries that the company has a contractual right to use;

- Cash and cash equivalents, subject to restrictions on their use over 12 months or more, are identified and given special accounting treatment;

- Cash transactions are recognised on a daily basis;

- Bank accounts are reconciled periodically with the data received from banks and subjected to periodic reviews using procedures that comply with the principle of separation of functions. Physical records are made of reconcilations and used to explain any discrepancies;

- Expenditures are authorised, paid and recognised by different people;

- Loan accounts are periodically reconciled with the contractual data, the repayment schedules and the data received from financial institutions;

- Repayment schedules are calculated using the depreciated cost method (at the effective interest rate) and drawn up when the loan is activated;

- Hedging transactions are adequately documented and procedures have been established to ensure that, when hedge accounting is chosen, the choice is made at the inception of the hedge;

- Loan guarantees received or given are clearly identified and recognised in the financial statements and/or in the notes to the financial statements.

Finally:

- A procedure has been established to identify complex financial instruments so that they can receive prior approval (under the company's rules) and accounting treatment that complies with the applicable standards (IAS 39, for example);

- An inventory is taken of other commitments given or received in relation to cash and financial instruments for their recognition or inclusion in the notes to the financial statements.

Control of the financial statement preparation process

The processes may be aimed at ensuring that:

- Financial expenses and income calculated using the effective interest rate method are correctly valued and recognised;

- Foreign currency cash and loans are correctly valued;

- Interest rate and currency derivatives are correctly valued.

2.3.8. Employee benefits

Control of the upstream processes and accounting production processes

- "Payroll" activities are subject to procedures that are known and adapted to the organisational choices made (in-house or outsourced processing).

- A separation has been established between the functions for calculating, recording, auditing, making payments and issuing payslips.

- A system has been established to ensure complete, accurate and timely transmission of the data needed to calculate pay (hours worked, overtime, wage increases, bonuses, new hires and departing employees, etc.)

- A process has been established to ensure clear information about employee benefits, especially post-employment benefits that are subject to complex actuarial calculations and nonmonetary benefits or other benefits that can be subject to valuation.

- Payroll entries are audited by a person with an appropriate level of responsibility.

- The accuracy of wage payments is subject to audits.

- The company's accounting rules specify the accounting treatment for shares and options attributed to directors and employees.

- Payroll and social security contribution accounts are examined and substantiated periodically.

Control of the financial statement preparation process

A system has been established to ensure proper counting, valuation and verification of proper accounting of:

- Provisions for paid holidays;
- Obligations related to employee saving schemes;
- Long-term employee benefit obligations;
- Obligations for pensions and other post-employment benefits.

The company must call on actuaries, when necessary, to value its retirement pension obligations and other employee benefits.

2.3.9. Taxes

Control of the upstream processes and accounting production processes

- A process has been established for monitoring obligations stemming from tax laws, regulations and instructions.
- Current year transactions, contracts, agreements, transfer pricing structures, etc. are analysed periodically from the tax perspective.
- A process has been established to ensure that the processing, preparation and filing of tax documents, and tax payments are carried out correctly and on time.
- A process has been established to ensure retention of the information needed to record taxes and business events relating to taxes, especially for the validation of effective tax rates and for determining deferred tax liabilities.
- An accounting system has been established to monitor the company's deferred tax position.
- Total tax expense, as shown in the consolidated income statement, is reconciled with the theoretical tax expense (tax proof).

2.3.10. Equity transactions

- A process has been established to ensure that the necessary authorisations have been given for all transactions involving the company's capital.
- A procedure has been established for tracking stock options (documentation of attribution dates, monitoring of options attributed and expired options, etc.)
- A procedure has been established to specify accounting regulations on advances on dividends.

2.3.11. Provisions and obligations

Control of the upstream processes and accounting production processes

- Obligations are identified using an organised process and established criteria.

- The company provides a clear definition of obligations and notifies the staff concerned.

- Obligations are identified periodically and covered by centralised reporting.

- The company ensures that commitments given and received, and reciprocal commitments are duly authorised.

- A process has been established to ensure that the company provides information about its obligations in the notes to its financial statements, in compliance with applicable accounting principles.

Control of the financial statement preparation process

- The company periodically accounts for its obligations and risks and determines, in collaboration with its experts and advisers, whether provisions or information in the notes to the financial statements are required. The company sets aside a provision whenever it has a legal or implicit obligation arising from past events and this obligation is likely to result in the disbursement of funds to third parties with no equivalent consideration expected in return and when a reliable estimate of the amount can be made.

- It analyses provision allocations and write-backs (distinguishing the proportion used) in order to assess the reliability of its risk measurement and analysis.

- More specifically, the company reviews and values the expenses and risks relating to:

    - Sales (rebates, price reductions, coupons, gifts, guarantees, etc.);

    - Requirements for bringing sites into compliance, rehabilitating sites, pollution clean-up and similar obligations;

    - Restructuring (indemnities, moving expenses, etc.);

    - Losses on contracts or financial instruments.

2.3.12. Consolidation

Control of the upstream processes and accounting production processes

Processes have been established to ensure that:

- The scope of consolidation is kept up to date and documented;

- Consolidation statements are drawn up in accordance with uniform accounting rules and principles by consolidated companies;

- Intercompany transactions are identified and eliminated, especially financial transactions and intercompany income (margin on inventories, dividends, income from the disposal of assets, etc.)

Furthermore:

- Consolidation entries are recorded and tracked in a special ledger;

- Variations in controlling shares of subsidiaries and investments are tracked in real time to ensure appropriate treatment at the cut-off date (scope of consolidation, changes in the consolidation method, etc.);

- Organisational measures ensure access to the information required for the treatment of companies consolidated by the equity method in the consolidated financial statements.

Control of the financial statement preparation process

- Uniform accounting principles are applied in consolidated financial statements.

- The accounting rules used define the consolidation criteria for subsidiaries and the methods applied.

- The percentage of holdings and the control situation of subsidiaries, investments and controlled entities are analysed to ensure the appropriate consolidation method is used for each one.

- Subsidiaries' individual financial statements are compared to the consolidated financial statements to analyse and track discrepancies and deferred taxes.

- The difference between the net consolidated closing position and the net consolidated opening position is analysed and explained.

- Variations stemming from the cash flow statement are analysed and explained.

2.3.13. Management information required for preparing accounting and financial information for publication

Control of the upstream processes and accounting production processes

- Management data (cost accounting, reporting, budgeting, etc.) required for preparing published accounting and financial information are reconciled periodically with the relevant accounting data (especially for the substantiation of the values of goodwill and recognised unamortisable intangible assets).

- Any discrepancies are analysed in compliance with the principle of separation of functions.

Control of the financial statement preparation process

- Published data are reconciled with internal data.

- The value of certain assets is validated by comparison to management data when required by accounting principles and rules (calculating impairment losses on intangible and tangible assets as appropriate).

2.3.14. Management of external financial information

Control of the upstream processes and accounting production processes

- Compliance and officers and processes have been established to identify and meet financial market disclosure requirements.

- A process has been established to monitor financial disclosure requirements.

- A schedule has been established that summarises the group's periodic disclosure requirements for accounting and financial information. The schedule specifies:

    - The nature and deadline for each periodic disclosure requirement;

    - The people responsible for preparing disclosures.

- A process has been established to ensure that external information:

    - Is disclosed on time;

    - Is in compliance with laws and regulations.

- A process has been established to ensure the reliability of non-accounting business information disclosed along with accounting and financial information (for example staffing and volume figures).

- A process has been established to ensure the protection of confidential information, in compliance with the rules set out in the AMF General Regulation.

- A process has been established to ensure that information fitting the definition of inside information is disclosed to the market in a timely manner, in compliance with the applicable rules. For this purpose, the company has an information system that enables it to monitor material events and transactions taking place during different accounting periods, as well as outcomes that are materially different from the objectives disclosed to the market.

A process has been established for checking information prior to disclosure.

ANNEXES

ANNEX 1

WARNING

The questionnaires are a helpful addition to the general document derived from the reference framework.

In view of the specific features of each company, the presentation in no way suggests that all the questions herein need to be considered when examining the internal control system, or that all of the elements mentioned need to be present, or that the lack of any of the elements needs to be explained.

Questionnaire on internal control of accounting and financial reporting

➔ Role of governance bodies[6]

If the Board of Directors has set up an Audit Committee, then the role attributed to the Board in the following questions could just as easily be played by the Audit Committee.

• Have the accounting principles that have a material impact on the presentation of the company's financial statements been formally validated by senior management, reviewed by the statutory auditors and presented to the Board of Directors or the Supervisory Board?

• Has senior management explained and substantiated the main accounting options and choices made with regard to the preparation of the published financial statements for the Board and have the statutory auditors reviewed these choices?

• Has a process been established for validating planned changes in accounting principles, with due consideration for the economic aspects of the transactions? Does this process call for consultation with the statutory auditors and notification of the Board?

• Does the Board receive the statutory auditors' assurance that they have had access to all the information needed to carry out their duties, especially in the case of consolidated companies?

• Does the Board receive the statutory auditors' assurance that they have made enough progress on their work at the cut-off date to be able to present all their material observations?

• Are the earnings components, balance-sheet presentation, financial position presentation and the notes to the financial statements explained to the Board each time the published financial statements are prepared?

• Has the Board been informed of the existence of a management control function, which produces data that are periodically reconciled with the published financial information?

• Has the Board been regularly informed of cash position statements that include the short-term outlook? Do the cash flow statements used in the analysis presented to the Board clearly distinguish cash holdings with restrictions on their use by the parent company?

➔ Accounting and financial reporting structure

• Does the accounting and financial reporting function have access to the information needed to prepare the financial statements from all of the entities covered by the statements?

• Does the group have an accounting principles manual that specifies the accounting treatment for the most significant transactions?

• If financial statements are published in accordance with several sets of accounting standards at the individual company or consolidated level, have procedures been established for explaining the main restatements?

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[6] In this questionnaire, the term "governance bodies" is taken to mean the Board of Directors.

• Are there accounting procedures manuals and instructions describing the division of responsibilities for execution and control of accounting tasks, as well timetables for execution? As part of the preparation of the consolidated financial statements, are there dissemination procedures to ensure that the manuals and instructions are followed by subsidiaries?

• Have the people responsible for preparing the financial statements and financial information, and the various players who participate in the preparation of the financial statements been identified?

• Has a process been established to identify the resources required for the smooth operation of the accounting function? Does it give due consideration to foreseeable developments?

➔ *Accounting and financial information system*

• Have information procedures and systems been developed to meet requirements with regard to the security, reliability, availability and relevance of accounting and financial information?

• Are information systems used for accounting and financial information adapted, as the company's needs change?

• Has senior management verified compliance with record retention requirements with respect to information, data and processing routines used directly or indirectly to prepare accounting records and financial statements?

➔ *Identifying and analysing risks affecting accounting and financial information*

• Have systems been established to identify the main risks affecting the process of preparing the financial statements?

• Does the internal control system for accounting and financial reporting include specific procedures to reduce the risk of errors and fraud?

➔ **Control activities**

• Are regular audits and spot checks conducted to ensure compliance in practice with the manual of accounting principles and the manual of accounting procedures?

• Have procedures been established to identify and resolve new and unforeseen accounting problems in the accounting principles manual and/or the accounting procedures manual?

• Do internal control activities for accounting and financial reporting include procedures to protect assets (risk of negligence, errors and internal or external fraud)?

• Does the internal control system for accounting and financial reporting include specific audits of accounting aspects that are identified as critical, such as recognition of assets, recognition of earnings, accruals, inventory valuation, etc.?

• Are the procedures for preparing the group's financial statements applied in every consolidated entity? If there are exceptions, are there adequate procedures for dealing with them?

➔ Accounting and financial disclosure

• Has a schedule been established that summarises the group's periodic disclosure requirements for accounting and financial information? Does this schedule specify:

- *The nature and deadline for each periodic disclosure requirement;*
- *The people responsible for preparing disclosures?*

• Are there people responsible and procedures in place for identifying and meeting market disclosure requirements?

• Has a procedure been established for checking information prior to disclosure?

Questionnaire on risk analysis and management

➔ General risk management principles

• Does the company have a "common language" for dealing with risk (uniform definitions, criteria for risk identification, analysis and monitoring, etc.)?

• Has the company established risk management objectives?

➔ Identification of the main risks

The internal control structure includes a system to ensure that a process has been established to identify the main risks involved in the company's business activities.
The level of detail in this process is adapted to the company's objectives, characteristics and environment (from strategic choices to transactions).

• Is there a process for identifying the main risks? If so, does the process incorporate the company's objectives? Has a structure been set up for this purpose?

➔ Analysis of the main risks

• Does the company analyse the potential impact of the main identified risks (quantified or not, financial or non-financial impact) and the estimated degree of risk control?

• Does the risk analysis incorporate internal and external changes affecting the company?

• Does this analysis lead to specific actions? Has the responsibility for such actions been defined? Where appropriate, is the implementation of these actions monitored?

➔ Main risk management procedures

• Have policies and procedures for managing the main risks been defined, approved by management and implemented in the company?

• Have specific resources been allocated to implementing and supervising risk management procedures?

• Have risk management responsibilities been defined and notified to the people concerned?

• Has the company's past experience with risks or that of similar entities been taken into consideration?

• Does management receive information about the key characteristics of actions taken to manage the company's main risks (type of actions taken or hedges established, insurance exclusions and the amount of coverage, etc.)?

• Does the company have a crisis management plan?

➔ Supervision of risks and risk management procedures

• Does the company provide internal information to the people concerned:

- *About risk factors?*
- *About risk management systems?*
- *About current actions and the people in charge of them?*

• Has the company identified its legal and regulatory obligations with regard to risk disclosure?

• Is there a mechanism that makes it possible, when necessary, to adapt risk management procedures to changes in risks and the external environment, as well as to changes in the company's objectives and business activities?

• Is there a system for identifying and correcting the main weakness in the risk management system used by the company?

• Has the Board of Directors or, where appropriate, the Supervisory Board, been informed of the main thrust of the risk management policies? Is the Board updated periodically on the main risks identified and the key characteristics of the risk management system, including the resources allocated and ongoing improvements?

ANNEX 2

Brief, terms of reference, operating procedures and membership of the Working Group set up by the AMF

Brief

The AMF gave a Working Group the task of choosing and/or adapting internal control standards for use by French companies subject to the requirements set out in the Act of 1 August 2003. The AMF commissioned the project and the Working Group is responsible for carrying it out.

The standards are to constitute a management tool for use by listed companies. The purpose of the standards goes beyond the public disclosure requirements set out in the Financial Security Act.

At the same time, the standards may contribute to greater uniformity in chairman's reports on internal control, making them easier for investors to understand.

The standards developed or chosen must be compared to those used in other leading stock markets, such as the COSO Framework, to avoid duplicating external reporting constraints with regard to internal control as far as possible. The aim is also to anticipate European initiatives included in the proposed amendments to the Fourth and Seventh Directives.

The Working Group set itself a one-year time limit for presenting its findings. Public consultations will be held before the Working Group hands in its findings.

Terms of reference

The Working Group must be made up a Plenary Committee with 18 to 20 members, along with other figures who may contribute to the Group's work. The latter must not have a vote in the Committee's decisions.

Proposal: IFACI must provide secretariat services for the group.

Operating procedures

The members are required to keep the Group's work confidential and they must not disclose any working documents given to them.
The Plenary Committee must meet once a month at the AMF's offices. The minutes of the meetings must be produced by the secretariat. To ensure an effective launch, a series of four meetings must be proposed before 14 July 2005.
The secretariat must prepare the meeting documents and submit them to the Plenary Committee after obtaining the approval of the Co-Chairs.
The Working Group's report must be of public interest. Therefore, the AMF must hold the copyright and distribute the report free of charge. The names of the people taking part in the work must be mentioned in the report.

Membership of the Plenary Committee

<u>Co-Chairs:</u> Jean Cédelle and Guillaume Gasztowtt

<u>Companies</u>

- A representative named by MEDEF (employers' federation)
- A representative named by AFEP (association of private companies)
- A representative named by IFACI (institute of internal auditors)
- A representative of AMRAE (risk management and business insurance association)
- A representative of Middlenext
- A representative of the French Banking Federation
- A corporate lawyer named by ANSA (association of joint-stock companies)

<u>Accounting Institutions</u>

- Two representatives named by the CNCC (institute of statutory auditors, Standards Committee and Public Offerings Department)
- A representative named by the French institute of chartered accountants

<u>Qualified members proposed by the AMF</u>

- Daniel Lebègue
- Patrick Mordacq
- Michel Léger
- Pierre-Alexandre Bapst
- Pierre Dufils
- Claude Elmaleh

<u>Non-voting members of the Working Group</u>

Louis Vaurs, Secretary

Two representatives of the AMF: Corporate Accounting and Auditing Department and Regulatory Policy and International Affairs Department

A representative of the Treasury Directorate
A representative of the French banking commission
A representative of the French insurance regulator, CCAMIP

ANNEX 3

Lists of participants in the Working Group's work

Co-Chairs:

Jean Cédelle
Guillaume Gasztowtt

Rapporteur

Louis Vaurs

Companies

AFEP	Francis Desmarchelier
AMRAE	Olivier Sorba
ANSA	Régis Foy
IFACI	Philippe Christelle
MEDEF	Agnès Lépinay
	Stéphane Carré
Middlenext	Evelyne Deloirie

Accounting Institutions

CNCC	Jacques Fournier
	Jean-Luc Barlet
CSOEC	Dominique Lecomte
	Muttiah Yogananthan

Experts

Pierre-Alexandre Bapst	Internal Audit Director, Hermès Group
Emmanuel du Boullay	Chair of the Training Commission, IFA (institute of directors)
Pierre Dufils	Partner, PwC
Claude Elmaleh	Financial Governance, Danone
Daniel Lebègue	Chairman, IFA (institute of directors)
Michel Léger	Auditor
Patrick Mordacq	Honorary Senior Adviser to the Court of Auditors
Michel Piaton	Internal Audit Director, Total

Non-voting members

ACAM (mutual insurance regulator)	Michel Crinetz
	Christophe Izard
	Romain Paserot
Banking commission	Guillaume Tabourin
Banking federation	Jean Tricou
Treasury	Benoît Sellam

Secretariat

IFACI	Florence Fradin
	Louis Vaurs

AMF

Gérard Rameix:	Secretary General
Hubert Reynier:	Secretary General’s Deputy
Philippe Danjou:	Accounting and Auditing’s Director
Maryline Dutreuil-Boulignac:	Regulatory Policy and International Affairs’s officer
Etienne Cunin:	Accounting and Auditing’s Officer

ANNEX 4

Main laws and regulations on corporate governance

➔ **Article L. 225-35 of the Commercial Code:** "The Board of Directors must determine the course of the company's business and oversee its implementation. Subject to the powers explicitly granted to shareholders' meetings and the limits of the company's object, the Board must deal with any matter concerning the company's business and must decide on the matters that concern the company. The Board of Directors must carry out any audits and verifications that it deems relevant."

➔ **Article L. 225-68 of the Commercial Code:** "The Supervisory Board must oversee the management of the company by the Executive Board. The Supervisory Board must carry out any verifications and audits that it deems relevant and may require submission of any documents that it deems helpful in the performance of its duties."

➔ **Article L. 225-51 of the Commercial Code:** "The Chairman of the Board of Directors must organise and direct the Board's work and report on it to the General Meeting. The Chairman must ensure the proper operation of the company's bodies and make sure that the directors are capable of performing their duties."

➔ **Article L. 225-81 of the Commercial Code:** "The Supervisory Board must elect two of its members to be the Chairman and the Vice-Chairman, who must be responsible for calling the meetings and leading the discussions."

➔ **Article L. 225-56 of the Commercial Code:** "The Chief Executive Officer must be given the broadest powers to act in the name of the company under all circumstances. He must exercise these powers within the limits of the company's object and subject to the powers that the law explicitly grants to the Shareholders' Meetings and the Board of Directors."

➔ **Article L. 225-64 of the Commercial Code:** "The Executive Board must be given the broadest powers to act in the name of the company under all circumstances. It must exercise these powers within the limits of the company's object and subject to the powers that the law explicitly grants to the Shareholders' Meetings and the Supervisory Board."

➔ **Viénot Report (1995):** "The Board of Directors must define the company's strategy, control its management and ensure the quality of the information provided."

➔ **Viénot Report II (1999):** "Advance information at all times is a critical requirement for directors for the proper performance of their duties."

➔ **Bouton Report (2002):** The Working Group stresses how important it is for listed companies to have an accounts (or audit) committee. The duties of this committee are inseparable from those of the Board of Directors. When dealing with internal audit and risk control, accounts or audit committees should examine material off-balance sheet risks and liabilities, talk to the head of internal audit, give their opinion on the organisation of the internal audit staff and receive information about its work programme. They should receive the internal audit reports or a periodic summary of such reports."

➔ OECD corporate governance principles

These principles were approved by the meeting of the OECD Council at the Ministerial Level held on 26 and 27 May 1994. They were amended in 2004. In Section VI, “The Responsibilities of the Board,” it is stipulated that the Board of Directors should ensure, “the integrity of the corporation’s accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.”

ANNEX 5

Participants in the Technical Group's work on drafting the Application Guide for internal control of accounting and financial information published by issuers

Name	Organisation	Other positions	Function
Jean Cédelle	Chair, Technical Group	Chair, Working Group	Compliance Director (Calyon)
Michel Léger	Chair, Technical Group	Member of the Working Group	Auditor
Guillaume Gasztowtt	Co-Chair, Working Group	Chair, Club des Trente	Consultant (KPMG Corporate)
Christine Shimoda	AFEP	L'Oréal	Internal Control Director
François Dugit-Pinat	AFEP	Alcatel	Consolidation and Accounting Procedures Director
Jacques Ethevenin	AFEP MEDEF	Air Liquide	Deputy Financial Director
Pierre Novarina	Middlenext	Toupargel/Agrigel	Deputy Managing Director
Laetitia Hucheloup	Middlenext	ABC Arbitrage	Internal control and Finance Manager
Pierre Molendi	DFCG	CNCE	Management Controller
Patrice Blondel	APDC	Bongrain	Accounting and Financial Reporting Director
Annie Bressac	IFACI		Consultant
Jean Louis Mullenbach	Chair Accounting Quality Clearinghouse	Cabinet Bellot Mullenbach & associés	Auditor
Jean Luc Barlet	CNCC	Mazars	Auditor
Laurent Gobbi	CNCC	KPMG	Auditor
Dominique Menard	CNCC	PWC	Auditor
Philippe Danjou	AMF		Accounting's Director

AMF Group Secretariat

Patrick Parent: Accounting and Auditing Department
Florence Tiberini: Accounting and Auditing Department
Etienne Cunin: Accounting and Auditing Department